Social Security Rescue Plan Swiftly Approved

Setting partisan differences aside, Congress acted with unusual speed at the start of the session to overhaul the Social Security system and to rescue it from possible insolvency. The quick legislative action marked the end of almost two years of bitter political debate and inaction that had allowed the system to fall deeper and deeper into financial trouble.

The package adopted (HR 1900 — PL 98-21) was expected to raise approximately $165 billion over the next seven years, guaranteeing that retirement checks would continue to go out to some 36 million recipients. If Congress had taken no action, the system's largest trust fund — Old-Age and Survivors Insurance (OASI) — would have run short of funds in July and faced serious financial trouble throughout the decade.

If economic projections proved correct, the bill also would keep Social Security solvent after the turn of the century when retirement of the so-called "baby boom" generation was expected to put an even greater strain on the system.

Based primarily on recommendations made earlier in the year by the president's bipartisan National Commission on Social Security Reform, the package raised the retirement age from 65 to 67 by the year 2027, delayed retirees' annual cost-of-living adjustment (COLA) six months and increased payroll taxes for both employers and employees.

Congress also agreed to make fundamental changes in the program by taxing for the first time benefits of high-income recipients and by using transfers from the general Treasury to help bolster the system's trust funds. It also voted to bring new federal employees, members of Congress, the president, the vice president and federal judges under the Social Security system.

Also attached to the bill were extraneous, but major, provisions revamping the way the federal government reimbursed hospitals for Medicare, extending an emergency jobless benefits program six months to help over two million unemployed workers and increasing benefits for the blind, aged and disabled poor.

The legislation left unresolved the possible bankruptcy later in the decade of Medicare's Hospital Insurance (HI) trust fund — also part of the Social Security system.

Passage of the bill followed a lengthy, and often touchy, partisan fight over the future of Social Security, set off in 1981 by Reagan administration proposals to cut benefits to keep the retirement fund from going broke. Democrats charged the administration with trying to balance the budget at the expense of the elderly, and called instead for higher payroll taxes to finance the system. *(1981 Almanac p. 117)*

But with the prospects of a bankrupt Social Security system becoming increasingly real, a truce was called at the end of 1981 with the appointment of the national commission. After some intense political negotiations between the White House and commission members, the commission was able early in 1983 to reach a fragile compromise on saving the system.

Despite some last-minute hitches in the Senate and during conference, legislation based on the commission's recommendations moved rapidly through Congress, largely because of congressional fears that any delay might cause the hard-won political consensus to unravel.

The House adopted the conference report (H Rept 98-47) on the compromise rescue plan on March 24, by a 243-102 vote. *(Vote 43, p. 18-H)*

By a 58-14 vote, the Senate gave its final approval in the early morning hours of March 25. *(Vote 54, p. 12-S)*

President Reagan signed the bill at a large White House ceremony April 20, noting that the legislation would "allow Social Security to age as gracefully as all of us hope to do ourselves, without becoming an overwhelming burden on generations to come."

Final Provisions

As signed into law (PL 98-21), the Social Security Act Amendments of 1983 (effective Jan. 1, 1984, unless otherwise noted):

Social Security

- Required Social Security coverage of all new federal employees, current and future members of Congress, the president, the vice president, sitting federal judges, top political appointees and civil servants and legislative branch workers who did not choose to go under the Civil Service Retirement System by Dec. 31, 1983.

The bill included language assuring current and retired federal workers that their Civil Service retirement benefits would not be reduced because of the bill.

- Required all employees of non-profit organizations to join Social Security as of Jan. 1, 1984, and prohibited any non-profit organization from withdrawing from the system on or after March 31, 1983.
- Prohibited state and local governments from withdrawing from Social Security coverage, as of the date of enactment. The bill allowed those state and local governments that previously had withdrawn from the system to return voluntarily.
- Taxed as regular income the Social Security benefits of individuals whose adjusted gross income (including tax-exempt interest income), combined with half of their Social Security benefits, exceeded $25,000. Benefits above a similar $32,000 threshold for a married couple filing a joint return were also to be taxed.
- Increased payroll taxes for self-employed individuals by 33 percent to equal the combined tax paid by employers and employees. To offset this increase, a tax credit was allowed of 2.7 percentage points in 1984, 2.3 percentage points in 1985 and 2.0 percentage points in 1986-89.
- Increased employer and employee payroll taxes from 6.7 percent to 7 percent of wages in 1984 and from 7.15 percent to 7.51 percent in 1988 and 1989.
- Delayed the annual July cost-of-living adjustment six months, until January, beginning with the July 1983 payment.

The COLA was to be provided in January 1984 even if the increase in the Consumer Price Index (CPI), on which the COLA was based, fell below 3 percent. Afterwards, as under prior law, the COLA would be forgone when the CPI fell that low.

- Allowed employees a .3 percentage point tax credit to offset the 1984 payroll tax increase. In effect, workers were required to pay only 6.7 percent in 1984, with the Treasury reimbursing the Social Security trust funds for the remaining .3 percentage point.

• Adjusted the annual COLA when reserves in the OASI and Disability Insurance (DI) trust funds were less than 15 percent of what would be needed for the year, for 1985 through 1988. In such cases, the COLA would be based on the lower of the increase in the CPI or the increase in average wages.

After 1988, the lower of the two indexes was to be used whenever the trust funds contained less than 20 percent of what would be needed for the year. Whenever reserves reached 32 percent or more in later years, a "catch-up" benefit was to be paid to those who lost benefits when reserves were low.

• Required the Treasury to credit the Social Security trust funds at the beginning of each month with all of the payroll taxes that were expected to be received during that month. Interest was to be paid by Social Security on any excess funds transferred. Previously, payroll taxes were credited to the funds on a daily basis.

• Required the Social Security board of trustees to inform Congress in its annual report if the system was in danger of falling short of funds.

• Allowed the three Social Security trust funds — OASI, DI and HI — to borrow from each other through 1987. However, OASI and DI would be unable to borrow from the ailing HI trust fund if its reserves fell below a certain level.

• Gradually increased the retirement age from 65 to 67 by the year 2027. The change was to be made in two steps. The age would be raised gradually to 66 over a six-year period ending in the year 2009. The second increase — from 66 to 67 — was to be made over another six-year period ending in the year 2027.

Early retirement still would be allowed at age 62, but benefits would be cut from 80 percent of full retirement benefits to 75 percent by the year 2009 and 70 percent by the year 2027.

• Required the secretary of health and human services (HHS) to study the effects of the retirement age change on those forced to retire early because of physically demanding work. The study, which also was to include recommendations on what if anything should be done to help such workers, was due by Jan. 1, 1986.

• Liberalized an existing penalty on retirees with outside earnings. Under prior law, those under age 70 had their benefits reduced $1 for each $2 they earned above $6,600. The bill provided for a $1 reduction in benefits for each $3 earned, beginning in 1990.

• Increased the bonus individuals received for delaying retirement past the age of 65 from 3 percent of benefits a year to 8 percent a year. The bonus was to be phased in between 1990 and 2008, and was made available for those up to age 70.

• Removed the Social Security system from the "unified" federal budget, in which receipts and outlays from federal funds and trust funds are consolidated, beginning in fiscal year 1992. Until then, Social Security was to be shown as a separate function within the federal budget.

• Reduced the so-called "windfall benefit" some retirees — most often former government employees — received when they worked for only a short time under the Social Security system. The bill cut the base retirement benefit of such workers.

• Permanently reallocated payroll taxes from the healthier DI trust fund to the OASI trust fund.

• Liberalized benefits designed especially to help widowed, divorced and disabled women. These included an increase in benefits for disabled widows and widowers aged 50-59.

• Changed the investment procedures of Social Security trust funds to address criticisms that past investments had yielded low returns.

• Credited the Social Security trust funds with certain military benefits and uncashed Social Security checks. Previously, uncashed checks were credited to Treasury's general revenue fund.

• Included certain elective fringe benefits in the wage base subject to Social Security payroll taxes.

• Eliminated a credit previously allowed certain individuals under age 65, who collected government pensions, to compensate them for the fact that their pension income did not include tax-free Social Security benefits. It also liberalized a similar credit for certain individuals over age 65 who received few, if any, Social Security or Railroad Retirement benefits.

• Allowed the secretary of health and human services to contract with states for death certificate information to help prevent the payment of benefits to deceased individuals.

• Made several miscellaneous and technical changes, including elimination of a number of sex distinctions in the law.

• Required a study by April 1, 1984, on how to turn the Social Security Administration (SSA) into an independent agency. SSA was part of the Department of Health and Human Services.

• Added two public members to the Social Security board of trustees, which had been composed of the secretaries of Treasury, labor and HHS.

• Required the SSA to issue counterfeit-proof Social Security cards.

• Restricted benefits for convicted felons and for survivors and dependents of non-resident aliens.

• Required state and local governments to turn withheld payroll taxes over to the Treasury more rapidly. Previously, such employers could hold onto the funds for about 30 days.

Supplemental Security Income

• Increased the monthly Supplemental Security Income (SSI) benefit $20 for individuals and $30 for couples, effective July 1, 1983.

• Delayed the July 1983 SSI cost-of-living increase for six months, until January 1984, and provided for payment of the annual COLA every January thereafter.

• Allowed payment of SSI benefits for the aged, blind and disabled poor who were housed for up to three months in public shelters. Previously, SSI benefits were allowed for those housed in private, but not public, shelters.

• Waived until Sept. 30, 1984, an existing rule that certain assistance from private non-profit groups be considered as income when determining SSI eligibility.

Unemployment Compensation

• Extended for six months an emergency supplemental jobless benefit program, which had been set to expire March 31. *(Subsequent extension, p. 274)*

The program allowed those who had exhausted up to 39 weeks of regular and extended benefits to qualify for a maximum of from eight to 14 additional weeks of payments, depending on their state's unemployment rate.

Individuals who exhausted emergency benefits under the existing program on or before April 1 were made eligible for up to 6-10 additional weeks of slightly lower payments under the new law.

Those receiving emergency benefits, but who would not have exhausted them until after April 1, were also made eligible for extra payments. In addition, those who had not exhausted their benefits by Sept. 30, 1983, when the program expired, were allowed to receive up to 50 percent of their remaining payments.

- Allowed states to deduct money from an individual's jobless benefits to pay for health insurance, if the individual elected such coverage.
- Allowed states in debt to the federal unemployment trust fund more time to pay interest on such loans, if the states took certain steps to shore up their own unemployment programs.
- Required states to deny unemployment benefits to non-professional employees of educational institutions between academic years or terms if they had a "reasonable assurance" of returning to work. Such benefits had been denied only for professional employees.

Medicare Changes

Congress attached to the Social Security measure unrelated provisions that fundamentally changed the way Medicare paid for hospital care for elderly and disabled Americans. *(Details, Medicare story, p. 391)*

Background

A delicate, last-minute compromise approved by the National Commission on Social Security Reform Jan. 15 paved the way for quick congressional action to keep the retirement system afloat.

The agreement, reached after hectic negotiations only hours before the commission's midnight deadline, was expected to raise $168 billion for calendar years 1983-89. The commission's members had agreed the previous November that the system's deficit would reach $150 billion-$200 billion over that period if nothing was done. Reagan established the commission in December 1981. Its original Dec. 31, 1982, deadline was extended for 15 days. *(1982 Almanac p. 53)*

The plan, approved by a 12-3 vote, called for both benefit cuts for retirees and tax hikes for employers and employees. The balance between the two measures had proven to be the main sticking point among the commission's 15 members. Rep. Bill Archer, R-Texas, Sen. William L. Armstrong, R-Colo., and former Rep. Joe D. Waggonner Jr., D-La. (1961-79), voted against the plan.

Of the amount to be raised, about $40 billion was to come from a proposed six-month delay in the July 1983 cost-of-living adjustment and a January payment date for all future COLAs. Another $40 billion was to be raised by increasing scheduled payroll tax hikes by 1990. The payroll tax rate would be increased .3 percentage point in 1984 to 7 percent and another .36 percentage point in 1988 to 7.51 percent. A one-time tax credit in 1984 was called for to offset the additional payments.

Self-employed individuals were to be required to pay 33 percent more in payroll taxes to equal the total combined tax paid by employees and employers. A tax deduction was allowed for half of their total payroll tax payment.

The commission also recommended that, for the first time, the Social Security benefits of high-income individuals be taxed. Under the plan, retirees with $20,000 a year or more in adjusted gross income other than Social Security benefits would have half of their benefits taxed. The threshold was to be $25,000 for those filing joint returns.

Also proposed was mandatory Social Security coverage for all new federal employees, including new members of Congress, and all workers of non-profit organizations. Current members of Congress would not be required to join the system. The commission plan prohibited state and local employers from withdrawing from Social Security.

Additional revenues were to be raised by crediting the Social Security trust funds with certain military service credits and uncashed Social Security checks.

'Baby-Boom' Protection

The commission "agreed to disagree" on how to solve a projected Social Security shortfall in the 21st century when the post-World War II baby-boom generation would begin to retire and there would be insufficient workers paying into the fund.

The commission decided the previous November that the system faced a shortfall equal to about 1.8 percent of expected payroll over 75 years. However, the compromise package raised only approximately two-thirds of that amount.

In a separate opinion, eight of the panel's members — all Republican appointees — called for a gradual increase in the retirement age to address the system's remaining long-term financial problems. They proposed that after the turn of the century the age be raised one month a year from 65 to 66 by the year 2015.

A ninth member, Armstrong, added in his minority views that he also supported this plan.

But five Democratic appointees to the commission called instead for an additional .46 of a percentage point increase in the payroll tax in the year 2010, with a refundable income tax credit for employees. Commission member Claude Pepper, D-Fla., chairman of the strategically important House Rules Committee, made it clear he would not accept any delay in the retirement age.

Last-Ditch Negotiations

The commission's report was the result of days of difficult negotiating between the White House and key members of the panel. Until only a few days before the commission was to dissolve, it appeared the divided membership was unlikely to reach a compromise after almost a year of meetings.

But Republican economist Alan Greenspan, chairman of the commission, said members set aside differences in the end, with the knowledge that not reaching a compromise could endanger the system."All of us swallowed very hard and accepted individual notions that we personally could not actually support," he said.

The compromise brought together such diverse panel members as AFL-CIO President Lane Kirkland, National Association of Manufacturers President Alexander Trowbridge, Pepper and Senate Finance Committee Chairman Robert Dole, R-Kan.

But the key to a final compromise was the acceptance of the package by both President Reagan and House Speaker Thomas P. O'Neill Jr., D-Mass. It had been the inability of those two to reach an agreement on the volatile Social Security issue that led to appointment of the commission in December 1981. Reagan, O'Neill and Senate Majority Leader Howard H. Baker Jr., R-Tenn., each appointed five members to the panel.

The White House had been reluctant to get too involved in the commission's politically sensitive negotiations. But faced with a difficult budget battle during 1981 and stronger Democratic control of the House, it joined forces with panel members in the final days to avert a possibly embarrassing floor fight on Social Security if no agreement was reached.

The widespread endorsement of the commission's package gave members of Congress — queasy about making any unpopular changes in Social Security — a relatively painless way to take the necessary, but politically difficult steps to keep the system from going broke.

Early Opposition

Groups directly affected by provisions in the compromise package were quick to give notice that they would not be handed a share of the burden without a fight.

The National Council of Senior Citizens said it was "adamantly opposed" to the proposed six-month COLA delay. Removing the provision's protection against inflation — "even for a limited period — is to take a step backward and to abdicate federal responsibility to the aged," the group said.

The 14-million member American Association of Retired Persons was one of several groups, including the National Federation of Independent Business and the National Taxpayers Union, that vowed to wage an all-out grass-roots campaign against the commission plan. Besides the COLA delay, the groups objected to the payroll tax increase and taxation of Social Security benefits.

In addition, federal employee unions joined forces to defeat congressional approval of the proposed requirement that new federal employees join the system. The unions charged that the change would have only minimal long-term advantages for the Social Security system, but would seriously damage the Civil Service Retirement Fund, which paid federal employee pensions.

Archer, Armstrong and other congressional conservatives also attacked the plan for its dependence on tax hikes to fund the system and for its reliance on what they called optimistic economic assumptions.

"The agreement reached continues to leave in doubt, in my opinion, the future stability of the Social Security system," Archer said in his minority views.

Armstrong argued that higher payroll taxes would place a drag on the economy, worsening the prospects for economic growth and he criticized the plan for relying on large sums of scarce general revenues for solving the system's shortfall.

According to preliminary estimates, approximately one-third of the plan's $168 billion target would come from the Treasury, either through tax credits and deductions or direct infusions into the trust funds. Previously, the retirement system had been funded solely through the payroll tax.

Armstrong also charged that another "fundamental principle" violated by the plan was the traditional parity between employer and employee contributors to the system. The proposed 1984 payroll tax credit would be available only to employees.

House Committee Action

Setting the stage for a major House floor fight over raising the retirement age or increasing payroll taxes to keep Social Security solvent, the Ways and Means Committee agreed March 2 to ask the Rules Committee to allow floor votes on both issues.

Ways and Means members agreed to the rule request after adopting by a 32-3 vote a Social Security rescue plan, reported March 4 (HR 1900 — H Rept 98-25), that for the most part followed the recommendations of the National Commission on Social Security Reform.

It included provisions to cover all new federal employees under Social Security, to raise payroll taxes, to delay the July COLA for six months and to tax Social Security benefits for high-income individuals. The package was expected to raise approximately $165.3 billion for 1983-1989, meeting the system's immediate financial problems.

Voting against the measure were Republicans Archer and Reps. Richard T. Schulze, Pa., and Philip M. Crane, Ill. Commission member Archer said the package did not make enough "substantive" changes in the system.

The committee effectively finessed the controversial issue of how to keep the system afloat in the next century when there were expected to be many more retirees and too few workers to support them.

In an effort to block a potentially divisive committee vote on raising the retirement age, Chairman Dan Rostenkowski, D-Ill., told members that the proposed rule allowing two separate floor votes on the issue had been agreed to informally by the House leadership, including Rules Committee Chairman Pepper, a staunch defender of benefits for the elderly.

The proposed rule was expected to pit Pepper, who favored an increase in payroll taxes in the next century, against Social Security Subcommittee Chairman J. J. Pickle, D-Texas, and a large number of Republicans, who preferred an increase in the retirement age after the year 2000.

The Ways and Means Committee took the middle road by including the recommendations of its Social Security Subcommittee to combine both benefit cuts and payroll tax increases. The subcommittee had voted to reduce initial benefits approximately 5 percent for new beneficiaries beginning in the year 2000 and to raise the payroll tax on employers and employees from 7.65 percent to 7.89 percent in 2015.

Under the committee's proposed rule, that provision would be included in the final package if the other two amendments failed on the floor.

Committee Changes

During its speedy two-day markup, the Ways and Means Committee made few changes in the package agreed to by its Social Security Subcommittee Feb. 23.

The committee did, however, agree to revise a controversial provision that would have allowed the Social Security system to borrow from the Treasury in emergency cases.

The change was adopted for the most part to win bipartisan support for the entire package. Republicans had charged that even limited general-revenue borrowing could set a precedent for raiding the Treasury to keep Social Security afloat.

The committee agreed instead to an amendment by Bill Gradison, R-Ohio, that the Social Security trustees would be required to report to Congress if it appeared that any of the system's three trust funds were in danger. Congress could then approve an emergency plan — involving anything from temporary benefit cuts or tax hikes to borrowing from the Treasury — to rebuild trust fund reserves.

The committee also adopted a Kent Hance, D-Texas, amendment to replace a proposed deduction for increased payroll taxes for the self-employed with a new tax credit. The change was made largely to benefit low- and moderate-income taxpayers.

Under the provision, self-employed individuals would be allowed a 2.1 percent credit in 1984 to help offset a 33 percent increase in their payroll taxes called for in the rescue plan. A 1.8 percent credit would be allowed in 1985-87 and a 1.9 percent credit would be allowed each year after 1987.

The committee also agreed to several subcommittee provisions to protect the system from unexpected fluctuations in the economy. These included a measure requiring the annual COLA to reflect the lower of wage or price increases if trust fund reserves fell below a certain level, beginning in 1988. Existing law based the COLA on increases in the price level.

Unemployment Benefits

In another move to win Republican support for the Social Security package, the committee agreed to a proposal by Bill Frenzel, R-Minn., limiting an extension of jobless benefits proposed Feb. 24 by its Subcommittee on Public Assistance and Unemployment Compensation.

The full committee agreed to a six-month extension of the federal emergency jobless benefit program, but cut from 16 to 14 the maximum number of weeks benefits could be paid. The benefits were to be provided in addition to up to 39 weeks of regular state and extended benefits, bringing to 63 the maximum number of weeks a jobless worker could receive payments.

However, the committee agreed to allow up to 65 weeks of benefits for some 1.2 million individuals who were expected to exhaust all existing payments as of April 1. The existing emergency jobless program was to expire March 31.

Frenzel said his plan would cut the cost of the subcommittee's six-month extension by about $200 million. Republicans had complained that the cost of the subcommittee's proposed extension — estimated at $2.6 billion by the Congressional Budget Office and $3.3 billion by the Department of Labor — was too high.

Other Action

The committee also:

- Accepted a $20 increase in monthly SSI benefits for the aged, blind and disabled poor and a six-month delay in the SSI COLA, as recommended by the Subcommittee on Public Assistance and Unemployment Compensation.
- Reversed a Social Security Subcommittee recommendation that the system be kept in the unified budget. The committee agreed instead with the president's commission that the Social Security system's trust funds should be taken out of the federal budget.
- Agreed to cover some 4,000 top political appointees and elected officials, including all sitting federal judges, under Social Security.
- Agreed to round up to $25,000 (for individuals) and $32,000 (for a married couple filing a joint return) the income threshold above which a portion of Social Security benefits would be taxed. The subcommittee had set the threshold at $24,500 and $31,500, respectively.
- Agreed that the income of federal judges under age 70 would be covered by earning restrictions applied to all other Social Security recipients.
- Agreed that interest would have to be paid by the Social Security trust funds on funds advanced to it from the general Treasury at the beginning of each month.

The advances, which were to be made in anticipation of payroll tax revenues to be collected during the month, were recommended by the subcommittee. But Republicans had complained that without the interest requirement, the advances would be little more than interest-free loans from the Treasury.

House Floor Action

The House March 9, by a 282-148 vote, passed a Social Security rescue plan that generally followed the guidelines of the National Commission. But the House also dealt decisively with the system's long-range financial problems — an issue on which the commission could not reach a consensus — by providing for an increase in the retirement age from 65 to 67 by the year 2027. *(Vote 23, p. 10-H)*

Final House passage of HR 1900 did not come without an emotional floor debate over the best way to solve the system's projected financial difficulties in the next century.

Besides an amendment raising the retirement age — offered by Social Security Subcommittee Chairman Pickle — Rules Committee Chairman Pepper proposed a .53 percentage point increase in payroll taxes in the year 2010 to prevent a cut in benefits.

But House members showed during the debate that while they were willing to give Pepper their admiration for his long defense of the elderly, most would not give him their votes. Pepper's measure, despite the backing of House Speaker O'Neill, was rejected by a vote of 132-296. *(Vote 21, p. 10-H)*

"History is being written on this floor. We are changing the tradition of this country," O'Neill said when it became apparent that Pepper's attempts to prevent a retirement age increase would fail. "In America, each generation has always paid for the generation that has gone before them."

Pepper's impassioned plea to his colleagues not to cut benefits won him a standing ovation, but it was not enough to convince most members that the "structural" change of a higher retirement age was the best way to restore the confidence of current workers in the retirement system.

The Pickle amendment was approved by a 228-202 vote, with the backing of 152 Republicans and 76 Democrats, including Ways and Means Chairman Rostenkowski and a majority of committee members. *(Vote 20, p. 10-H)*

The House agreed to raise the retirement age in two stages. The first would be a gradual increase from 65 to 66 over a six-year period ending in the year 2009. The second increase would be from 66 to 67 over another six-year period ending in the year 2027.

While individuals still would be able to take early retirement at age 62, their benefits would be reduced from the current 80 percent of full benefits to 70 percent in 2027.

Opponents seized on this last change and charged it would penalize millions of workers forced to retire early because of poor health or mandatory retirement.

But Pickle defended the age increase as necessary to keep up with changing demographics. He pointed out that life expectancy had increased more than 10 years since the 65-year retirement age was set in place over 40 years earlier.

Raising the retirement age was "not harsh," he said. "That is just in keeping with the times."

Pickle's amendment also required the Department of Health and Human Services to make recommendations by Jan. 1, 1986, on how Congress should deal with individuals who could not retire later because of physically demanding jobs.

Those voting against passage of the bill included both liberals opposed to the higher retirement age and coverage of federal employees and conservatives opposed to additional taxes.

Senate Committee Action

The Senate Finance Committee approved a similar measure the following day by a vote of 18-1, after including long-range funding provisions that dampened much of the conservative opposition to the commission's plan.

The Senate package, reported March 11 (S 1 — S Rept 98-23), included a one-year increase in the retirement age by the year 2015, but it also cut initial retirement benefits 5 percent after the turn of the century.

Committee member Armstrong, one of the most vocal opponents of the commission plan, praised the Finance Committee bill. He observed that quick action in both houses and adoption of the retirement-age increase had proven "the cynics are wrong. There are occasions when Congress will rally to the task and do what is politically hard."

Armstrong and other conservatives had criticized the commission's rescue package because of its reliance on large tax increases, instead of benefit cuts, to keep the system afloat. One critic, Steven D. Symms, R-Idaho, cast the sole dissenting vote in the Finance Committee.

The long-term financing proposal, offered by John Heinz, R-Pa., and adopted 13-4, called for a gradual increase in the retirement age from 65 to 66 over a 15-year period beginning in the year 2000.

It also would have reduced initial benefits by 5 percent beginning the same year. Workers had been receiving an initial Social Security payment equal to about 42 percent of their last paycheck. The package would have reduced this "replacement rate" to 40 percent.

In addition, Heinz' amendment called for elimination — over a five-year period — of a penalty imposed on beneficiaries who worked after they reached retirement age. Benefits were reduced $1 for every $2 retirees up to age 70 earned over $6,600 a year.

The package also would have increased benefits for those leaving the work force to care for their children at home under age six. Under existing law, a worker's five lowest-earning, or non-earning, years were not counted when determining his or her initial Social Security benefit. The committee bill would have allowed two additional "drop-out" years for child care.

The committee rejected 15-2 a proposal by Daniel Patrick Moynihan, D-N.Y., to raise payroll taxes in the year 2010, in place of benefit cuts.

Other Social Security Action

The committee also rejected 6-11 a motion by Russell B. Long, D-La., to delay the effective date of a provision calling for Social Security coverage of new federal employees until a supplemental Civil Service retirement plan could be established.

Members gave assurances that such a supplemental plan would be set up, but federal workers continued to fear that their retirement benefits would be cut if no new workers were available to pay into the existing Civil Service Retirement System.

But Finance Committee Chairman Dole charged that a delay in the Jan. 1, 1984, effective date would only give lobbyists a longer time to fight for repeal.

Besides agreeing to the package of long-term provisions, the committee made several other changes in the House-passed package. One of the major ones was a provision to cut beneficiaries' cost-of-living checks, as a last resort, if reserves in the Social Security trust funds fell below a certain level because of unexpectedly bad economic conditions.

The provision was to go into effect in 1985, but was to be used only after all other emergency measures allowed in the bill — including borrowing between the system's three trust funds — had been exhausted.

The bill also would have required the managers of the trust funds to give six-months' notice that such a benefit cut might be necessary so that Congress would have the option to make other adjustments to the system before the COLA cuts went into effect.

The committee also agreed to:

- Include tax-exempt interest when computing a beneficiary's income to determine if his or her Social Security benefits should be taxed.
- Provide a more generous tax credit to offset a proposed 33 percent payroll tax increase for the self-employed. The Finance Committee bill called for a credit against self-employment taxes of 2.9 percent in 1984, 2.5 percent in 1985, 2.2 percent in 1986, 2.1 percent in 1987-89 and 2.3 percent after 1989.

  The House bill called for a credit of 2.1 percent in 1984, 1.8 percent in 1985-87 and 1.9 percent after 1987.
- Eliminate Social Security benefits for non-resident aliens, their dependents and survivors, except for payments equal to the amount the alien worker had paid into the system, plus interest.
- Expand Social Security coverage to include all new federal employees, members of Congress, the president and vice president, but not the top political appointees, certain elected officials and sitting federal judges, covered under the House bill.
- Exempt from Social Security coverage members of the Amish religious sect working for Amish employers.
- Allow the three Social Security trust funds to borrow from each other through 1987, as long as no funds were borrowed from the HI trust fund, which financed Medicare, when its reserves were low.
- Eliminate Social Security benefits for imprisoned felons.

Jobless Benefits/SSI

The Finance Committee also agreed to a slightly less generous six-month extension of federal emergency jobless benefits than that adopted by the House.

The Senate measure — expected to cost over $2 billion — provided for up to eight additional weeks of benefits to individuals who exhausted up to 55 weeks of federal and state benefits before April 1. The House bill allowed up to 10 more weeks.

In addition, individuals who did not qualify for the federal emergency benefits until after April 1 were to receive up to 14 weeks of additional benefits depending on their state's jobless rate, under the Finance bill.

Those who did not exhaust their emergency benefits when the extension expired Sept. 30 were to receive up to

50 percent of their remaining payments after the expiration date.

The Senate bill also included a provision to give certain hard-hit states some leeway in repaying interest owed on outstanding loans from the federal unemployment trust fund. States owed about $12 billion to the fund, and many of them saw little chance of being able to repay the loans, or make large interest payments, soon.

Under the plan, states were allowed to spread their interest payments over a five-year period if they could show that they were taking steps to improve the solvency of their state unemployment compensation programs.

The committee also agreed to accept provisions in the House bill to increase monthly SSI benefits $20 and to delay a scheduled SSI COLA six months until January 1985.

Senate Floor Action

The Senate approved the Social Security package March 23, by a vote of 88-9, after brushing aside several attempts to unravel the compromise rescue plan that had sailed through Congress so far. *(Vote 53, p. 11-S)*

"The strength of this package may be the weakness of its parts," Finance Committee Chairman Robert Dole, R-Kan., warned at the start of floor debate March 16. "If during the course of debate one of these should fall by the wayside ... we probably [would] end up without a compromise and without a Social Security package this year."

Despite the warnings, passage was temporarily threatened March 21 when John Melcher, D-Mont., offered an interest and dividend withholding amendment similar to one that had held up an emergency jobs bill just the week before. *(Withholding, p. 261)*

It took the Senate leadership almost two days to rid the bill of the troublesome amendment — and then only after some muscle flexing by President Reagan.

Melcher's amendment called for a six-month delay in the July 1 effective date of a new law requiring that banks and other financial institutions withhold 10 percent of interest and dividend income for tax purposes.

He said the delay was needed for a "thorough understanding" of the new withholding law, which had provoked a massive letter-writing and repeal campaign.

But a clearly frustrated Dole condemned the Melcher move and threatened to filibuster if the amendment was not withdrawn. Dole reminded members that an agreement had been reached previously to take up the withholding issue on a trade reciprocity measure April 15. He charged the banking lobby with reaching a "new low," adding, "They almost beat the homeless and the jobless and now they're after the senior citizens."

Dole's sharp words and filibuster threats appeared initially to have little impact on his colleagues. A motion by Majority Leader Baker March 21 to table the Melcher amendment lost 37-58. *(Vote 36, p. 9-S)*

The following day, the leadership, along with the White House, took a more forceful stance to get the threatened Social Security package back on track.

After a morning meeting with Republican leaders, Reagan accused the banking lobby of being a "selfish special interest group" and of using "obstructionist tactics."

Baker later stepped up the pressure on the Senate floor by charging in an emotional, and somewhat frustrated, voice that the Melcher amendment would "blow this package apart."

With Vice President Bush presiding in the chair to cast the deciding vote if necessary, the Senate tabled 54-43 a Melcher motion to permit consideration of his amendment even though it violated revenue requirements of the fiscal 1983 budget resolution. Melcher's amendment was then ruled out of order and laid to rest. *(Vote 38, p. 9-S)*

Other Senate Action

But shortly after, another challenge arose to the Social Security plan.

Long, the ranking Democrat on the Finance Committee, proposed an amendment to delay coverage of federal employees under Social Security until a supplemental Civil Service retirement system could be established to provide them with an additional pension, comparable to those offered in private business.

Long's amendment was approved by voice vote, but only after several blocking attempts by the leadership.

Ted Stevens, R-Alaska, charged that the Long amendment would only give federal employees a chance to escape coverage altogether. That loss would cut the value of the rescue plan by $9.3 billion over the next decade, said Dole, who hinted strongly that he would fight the provision in conference if it were passed. The provision was later dropped in conference.

But Long argued it was unfair to expect federal employees to accept the new plan before they knew what supplemental benefits they would receive.

An alternative proposal by Stevens to cover new federal hires under Social Security, but not make them pay into the Civil Service Retirement System until a supplemental plan could be established, Oct. 1, 1985, was rejected 45-50. *(Vote 48, p. 11-S)*

The Senate also:

- Adopted, 96-0, an Armstrong amendment to ease certain payroll tax withholding deposit requirements for small businesses. The change was expected to cost the Social Security trust funds about $1 billion in 1983-89. *(Vote 28, p. 8-S)*
- Accelerated a proposed increase in the bonus benefit that individuals received if they delayed retirement past the age of 65. The bill already had included a provision increasing the existing 3 percent annual delayed retirement credit to 8 percent by the year 2010. The amendment phased in the higher credit by 1995 and removed an existing age limit for receiving the credit, to encourage the elderly to remain in the work force.
- Agreed to a Don Nickles, R-Okla., amendment to deny all Social Security benefits to aliens who worked illegally in the United States. The provision was to apply to those who became eligible for benefits after 1983.
- Agreed to ease interest payment requirements for certain states that owed funds to the federal unemployment trust fund.
- Eliminated all Social Security benefits for the criminally insane.
- Required notices on all Social Security checks that cashing of checks issued to deceased persons would be a felony.
- Allowed the Health and Human Services Department to contract with states for death certificate information to prevent the issuance of checks after a beneficiary's death.
- Allowed clergy members to be considered employees, instead of self-employed, for payroll tax purposes.
- Rejected an Armstrong amendment to delete provisions in the bill calling for higher payroll taxes over the

next decade, by a vote of 27-67. *(Vote 41, p. 10-S)*

• Killed, by a vote of 12-84, an amendment by Steven D. Symms, R-Idaho, that would have increased the retirement age from 65 to 68 over a 36-year period, beginning in 1984. *(Vote 29, p. 8-S)*

Conference Action

House and Senate conferees agreed to the final shape of the bill (H Rept 98-47) during a 12-hour session March 24, as colleagues waited impatiently to leave for the Easter recess.

The primary stumbling block was a difference between the House and Senate on how to solve the system's long-range financial problems. The House measure called for a two-year increase in the retirement age while the Senate bill would have increased the age to 66, cut initial benefit payments 5 percent and eliminated a penalty for retirees earning outside income.

Another major difference was a provision in the Senate bill delaying coverage of new federal employees until a supplemental Civil Service retirement plan could be developed. House conferees charged that if the change were made, the entire Social Security bailout plan could be jeopardized by giving federal workers a chance to escape coverage altogether.

After hours of bargaining, mostly behind closed doors, conferees agreed to the House retirement age change, fearful that any tampering with the sensitive long-term provisions might doom the entire legislative package.

Senate conferees then agreed to recede on federal employee coverage by a vote of 4-3.

Revenue Sharing Extended for Three Years

Congress Nov. 17 gave final approval to a three-year extension of the federal revenue sharing program of aid to local governments.

The measure (HR 2780 — PL 98-185) entitled local governments to $4.6 billion in revenue sharing grants annually in fiscal 1984, 1985 and 1986. The bill was cleared after House conferees yielded to Senate insistence that funding be maintained at the level authorized for fiscal 1980-83. The House had sought a $450 million increase, to $5.02 billion. The Reagan administration had threatened a veto of any bill authorizing an increase.

Revenue sharing was first enacted in 1972 as part of President Nixon's "new federalism." The idea was to transfer money — and thus power — to state and local governments to spend as they pleased. Congress extended the program in 1976 and again in 1980. It lapsed Sept. 30, while Congress was considering a further extension. *(1980 Almanac p. 286)*

Revenue sharing had strong bipartisan support in Congress because it was the only federal aid program that gave localities money they could spend as they saw fit. Since it began, the program had distributed over $60 billion in federal funds to states and localities. States had not participated in the program since 1980.

Local governments used revenue sharing money to pay police and fire personnel, provide health care to residents, buy library books, build and repair highways, support education and for dozens of other purposes.

Final Provisions

As cleared by Congress, HR 2780:

• Extended general revenue sharing grants to local governments for three years, from Oct. 1, 1983, through Sept. 30, 1986.

• Set mandatory, or entitlement, funding for the program at $4.57 billion a year.

• Eliminated the previous authorization allowing state governments to receive revenue sharing funds on a case-by-case basis if specifically appropriated by Congress.

• Permanently extended authority for each state to develop, subject to certain constraints, its own formula for allocating revenue sharing funds to local governments within its borders.

• Provided that a local government whose tax base fell by 20 percent or more due to a plant closing or other economic hardship would not have its revenue sharing allocation cut for at least a year.

• Eliminated the requirement that recipients hold a public hearing on "possible uses" of their revenue sharing funds before holding a hearing on "proposed uses."

• Increased the amount of time a recipient could take to respond to a formal Treasury Department charge that it had used its revenue sharing funds in a discriminatory manner.

• Required governments receiving $100,000 or more a year in revenue sharing to obtain annual independent audits of their use of the funds, or biennial audits in the case of jurisdictions with biennial budgets; required governments receiving from $25,000 to $100,000 a year to obtain an audit once every three years, covering only one of the three years.

• Required the secretary of the Treasury to study various aspects of the revenue sharing program and the formula used to allocate its funding and report to the president and to Congress by June 30, 1985.

• Authorized local governments in Massachusetts to count as taxes collected in 1982 certain taxes actually collected in 1983 to take into account a Massachusetts court ruling that changed the method for valuing property for tax purposes.

House Committee Action

The House Government Operations Committee reported HR 2780 May 16 (H Rept 98-179). As approved by the committee on a 37-2 vote May 11, the bill extended revenue sharing assistance to local governments through fiscal 1988 and increased funding by more than $730 million a year to $5.3 billion.

The House bill also extended a provision in the existing law that was expected to continue excluding states from the program.

By its action, the committee rejected the Reagan administration's request for a three-year reauthorization at the fiscal 1983 level of $4.6 billion.

Committee Democrats joined a number of Republicans in defeating more than a dozen amendments — several